Annual report | 1975

London Life Insurance Company | Head Office | London Canada

Facts at a glance

101st Annual Report of London Life Insurance Company
for the year ended December 31, 1975

	1975	1974	% Increase
New life insurance issued	**$ 2,610,495,697**	$ 2,207,821,564	18.2
Individual policies	**1,922,233,865**	1,703,819,382	12.8
Group policies	**688,261,832**	504,002,182	36.6
Life insurance in force	**$18,946,859,463**	$16,957,267,720	11.7
Individual policies	**13,753,748,851**	12,394,211,780	11.0
Group policies	**5,193,110,612**	4,563,055,940	13.8
Increase in insurance in force	**1,989,591,743**	1,961,746,354	1.4
Life insurance premiums	**$ 227,532,095**	$ 212,452,548	7.1
Annuity premiums	**$ 55,002,433**	$ 49,183,748	11.8
Health insurance premiums	**$ 52,380,253**	$ 43,223,069	21.2
Dividends to policyowners	**$ 57,047,239**	$ 52,123,121	9.4
Total benefits to policyowners and beneficiaries	**$ 235,949,034**	$ 212,857,207	10.8
Total assets	**$ 2,392,255,810**	$ 2,187,981,343	9.3
Net earnings on investments	**$ 165,903,300**	$ 142,246,926	16.6
Rate of return on investments (life branch excluding segregated funds)	**7.51%**	7.30%	
Earnings per share credited to shareholders' account	**$3.22**	$3.09	
Dividends per share	**$2.20**	$2.00	

Contents

London Life Insurance Company

Incorporated by special act under the Laws of Canada

Head Office: 255 Dufferin Avenue, London, Canada

Pour recevoir ce rapport annuel en français, il suffit d'en faire la demande.

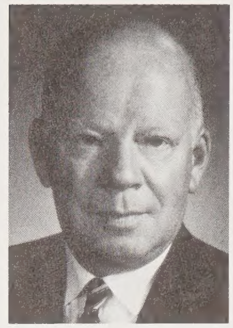
Directors

*Member of Executive Committee

Joseph Jeffery, O.B.E., Q.C., LL.D.*
Chairman of the Board

Alexander H. Jeffery, Q.C.*
President

M. C. Pryce*
Executive Vice-President



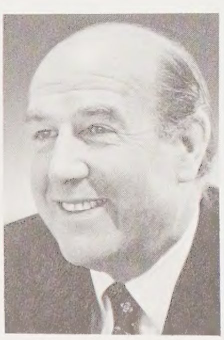
Albert W. Anderson
Director

Alex E. Barron
Chairman
Canadian Tire Corporation Limited

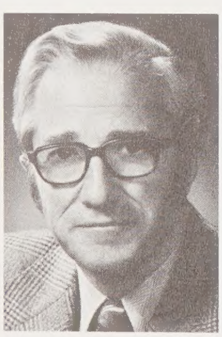
John B. Cronyn
Director
John Labatt Ltd.

Gordon D. Jeffery
Barrister & Solicitor

Allen T. Lambert
Chairman and Chief Executive Officer
The Toronto-Dominion Bank

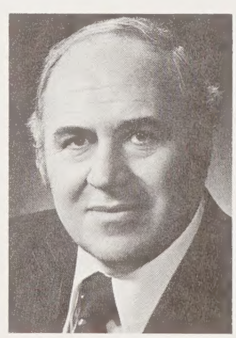


John H. Moore, LL.D.**
President and Chief Executive Officer
Brascan Limited



Donald Smith
President
Ellis-Don Limited

J. Allyn Taylor*
Chairman
Canada Trust



John J. Wettlaufer, LL.D.
Dean
School of Business Administration
University of Western Ontario

**Appointed January 26, 1976

Officers

Chairman of the Board
Joseph Jeffery, O.B.E., Q.C., LL.D.

President
A. H. Jeffery, Q.C.

Executive Vice-President
M. C. Pryce

Vice-President and General Manager
D. S. Rudd

Vice-President and Treasurer
G. L. Corneil

Vice-President and Executive Director of Marketing
D. E. Creighton

Vice-President and Chief Actuary
L. B. Fewster

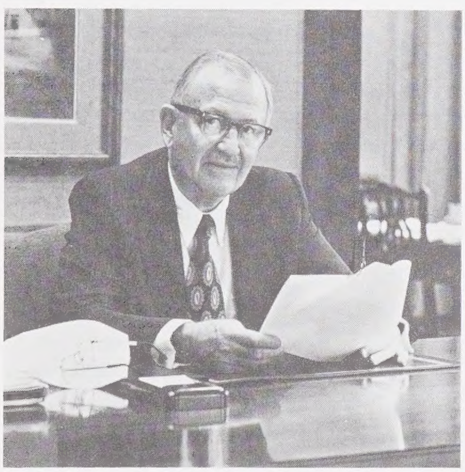
Vice-President and Executive Secretary
W. L. Pollard

Vice-President, Group
T. E. Reid

Secretary
H. M. Ballantyne

Report of the Chairman and the President

Joseph Jeffery



Alexander Jeffery

Canada's prosperity depends in large measure on our ability to compete in world markets. Unfortunately during recent years low levels of productivity and high wages have been pricing Canadian goods out of foreign — and even domestic — markets. This, of course, leads to fewer job opportunities at a time of high unemployment in Canada.

To cover the resulting balance of trade deficits, Canada has imported foreign capital. The situation has now deteriorated to the point where any slowdown in foreign borrowing could put strong downward pressure on the Canadian dollar. Any devaluation would, of course, trigger a further round of high domestic inflation. Another complication is that to continue to attract the large foreign sums required, domestic interest rates have had to be maintained at high levels.

In an attempt to remedy this situation, the Canadian government introduced wage, price and profit controls late in 1975. Unfortunately, experience with such controls in Britain and the United States confirmed the view that controls are ineffective. At worst, controls in the long run can reduce the areas of profitability and reasonable investments, and therefore lead to product shortages and even black markets; moreover, immense pressures can build by workers and business for wage and price increases. Nevertheless, controls in the short run can reduce expectations and demands, and provide a breathing space for authorities to correct the basic causes of inflation.

Printing more money is not the answer

Surely, experience has proven that Canada's economic problems cannot be solved by printing more money. During the past five years, the overall supply of money in Canada has been expanded 80%; undeniably, this accounts for a large part of our inflation.

A constructive alternative would be to bring government spending into better balance with income, and thus decrease the pressure to print more money. Recent announcements concerning government spending are a step in the right direction, but much remains to be done. One possibility is the administration of transfer payments on a selective, rather than universal, basis; for example, surely baby bonuses could be eliminated for families in high income brackets without causing much hardship. Another possibility is the re-examination of objectives and results of government programs; for example, some senior civil servants at the federal level have actually received more pension by retiring early rather than continuing to work, because of an overly generous system of indexing — and after retiring they will receive the full benefits of indexing while also benefitting from the special income tax provisions and other measures introduced to help less fortunate pensioners. Further, the cost of this overly generous and poorly designed indexing is being passed on to the future because of a lack of proper funding.

All Canadians must face up to two basic facts of economic life. First, we cannot keep asking governments for more benefits without expecting to pay for them, one way or the other. Second, we cannot raise our overall standard of living merely by redistributing the results of current production; the only way is to increase the production of goods and services. Unfortunately, Canada's recent productivity record is one of the worst in the industrialized world, partly because of strikes but also because of a variety of other factors.

Increase in productivity at London Life

We are proud to report that London Life's experience runs counter to

"The overall effect has been a significant increase in productivity"

national productivity trends. As outlined more fully in the next section of this annual report, activities have expanded, and dollar volumes have increased in both sales and investment operations. At the same time, significant reductions have been made to both home office and regional office staffs. The overall effect has been a significant increase in productivity which compares favorably with the national averages. Meanwhile, the entire staff both in home and field offices continues to search for methods of reducing costs still further, and we congratulate them for their efforts.

At London Life, we realize that a reduction in the rate of inflation is in the best interests of all Canadians. A sound currency is essential to a sound economy, to the success of our business, and to the ability of employers and individuals to make satisfactory arrangements for their dependants and their own retirement years.

With this in mind, London Life will undertake additional efforts during 1976 to apply the complex anti-inflation regulations to our own staff compensation, to the employee benefit programs of group clients, and to the general overall conduct of our business. One result of the regulations is that shareholder dividends have already been frozen at the current quarterly rate of 55 cents a share.

At this time, the full implications of the government regulations on our future sales are not entirely clear. Limitations on salary increases may tend to reduce somewhat the sales possibilities for both individual and group products. Nevertheless, experience shows that in periods of tight money and a general concern about the economy, Canadians have a greater tendency to turn to the guarantees inherent in life insurance and annuities. On balance, therefore, the company has a positive overall outlook for 1976.

Maximizing the effectiveness of our human resources

In view of the continued high levels of inflation, we made a substantial increase during 1975 in the supplemental amounts paid to London Life staff pensioners who retired several years ago on terms less generous than those of the present pension plan. However, this adjustment by no means amounted to full indexing.

As indicated in last year's annual report, a program of flexible hours was introduced on a trial basis during 1974 for home and regional office employees. Under the plan, employees can select their hours of work to suit their personal preferences, within certain limits and the requirements of their jobs. The plan receives a high degree of acceptance by the staff after more than a year of testing, and therefore will continue.

Our new telecommunications system, which is discussed elsewhere in this annual report, was installed during 1975 on schedule and below cost estimates — a considerable achievement on the part of everyone involved; the impact of this system will be further evident in our results for 1976. Turnover continues at very low levels for both home and regional office staffs; this, of course, also contributes to the efficiency of our operations.

Two appointments were announced during the year to further strengthen the management team. D. S. Rudd, formerly vice-president and deputy general manager, became vice-president and general manager. R. G. Mepham, formerly group pension actuary, was appointed group actuary.

The company's award-winning television series, "The Human Journey," entered its sixth season on the CTV network last autumn.

"A highly attractive area in which to live, work and shop"

Audience research indicates each program reaches more than a million viewers, most of whom are prime prospects for the company's products and services. Meantime, London Life's French-language advertising campaign continues with a series of 60-second and 30-second "spot" commercials in Quebec.

Planned extensions to company operations

During the past year, we began steps to become fully licenced in Prince Edward Island and Newfoundland, the two provinces in which we have not yet established branch offices.

In last year's annual report, we discussed how LONLIFE Data Services Limited was formed late in 1974. This wholly-owned subsidiary has already begun to make a contribution towards lowering our company's costs of data processing through the sale of unused capacity and time on our computer.

Progress also continues in another investment, Toronto College Street Centre Limited. In last year's annual report, we outlined how London Life is participating in this real estate consortium, which plans to redevelop an 11-acre site in downtown Toronto. During 1975, plans moved ahead with a view to eventual development of this site — one of the largest in downtown Toronto — as a highly attractive area in which to live, work and shop.

Immediately south of the College Street property is another new investment of London Life, the Chelsea Inn. This new $20 million apartment hotel has been well received by the public since its opening late in 1975. Chelsea Inn is owned by Seachel Accommodations Limited. In turn, Seachel is 50% owned by London Life; the remaining half is equally owned by the CNR Pension Fund and two Toronto real estate companies, Markborough Properties Limited and Canlea Ltd., a subsidiary of A. E. LePage Limited.

With the growing complexities of obtaining year-end figures, we are preparing to change the date of the annual meeting from February to March, beginning in 1977; this would provide management and directors with more time for analysis of the year's activities, and would allow additional time for printing and distributing the annual report. Another proposed change in the company's bylaws would provide for quarterly, rather than monthly, meetings of the board of directors; this would facilitate attendance by out-of-town directors, and would allow for longer meetings with more detailed analysis of the company's affairs and operations.

Joseph Jeffery — Alexander H.

Chairman of the Board — *President*

Report of the Executive Vice-President and the Vice-President and General Manager

M. C. Pryce

D. S. Rudd

During 1975 life insurance sales reached a record level of $2.6 billion, an increase of more than $400 million over 1974. Moreover, the total amount of life insurance provided by the company grew to almost $19 billion, about $2 billion higher than 1974 and about 9% of all life insurance coverage on Canadians. At the same time, the company provided health insurance and pension plans to increasing numbers of Canadians, returns on investments reached record levels, and benefits further increased for policyowners and beneficiaries.

Inflation has been creating sales opportunities, but it also works against the best long-range interests of London Life and its policyowners. Moreover, inflation increases the costs of operations. With this in mind, the staff took advantage of opportunities during the year to further eliminate non-essential activities, streamline operations and again increase productivity. These efforts were successful in both 1974 and 1975 at holding the general expense ratios at about 1973 levels or better, despite the inflationary increases in our costs.

Sales of individual life insurance approach $2 billion

Sales of individual life insurance reached almost $2 billion, a new high and an increase of 13% over 1974. The average policy size rose 16% to $17,500, offsetting a 2% decrease in the number of policies to 110,719. The average premium per policy grew 9% to $203. However, the average annual premium per $1,000 of coverage declined from $12.30 to $11.65. This results partly from an increase in the number of sales to females and younger ages — two groups with lower mortality and therefore lower premiums — and partly from a trend to term insurance and away from some higher premium plans such as equity life insurance and endowments.

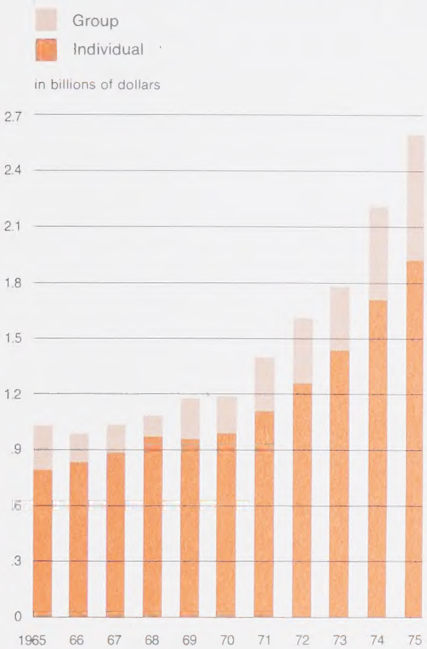
In a difficult year for stock markets, equity life insurance sales fell to $19 million. With some increase in the number of policyowners exercising their right to convert equity policies into fully-guaranteed contracts, the amount of equity life insurance in force fell slightly, from $402 million to $393 million.

New rates for term policies were established at mid-year, and corresponding adjustments were made to supplemental term coverage at the beginning of 1976. These changes were designed to improve the company's competitive position on larger amounts, and provide a fairer distribution of expense among all policyowners.

After taking into account death claims, matured endowments, surrenders and other terminations, the net gain for individual life insurance was a record $1.360 billion. This compares with $1.231 billion in 1974. London Life is proud of the sound sales, underwriting and service practices of its field and office staff, which give the company one of the highest rates of retention in the entire industry.

Sales of registered retirement savings plans, particularly participating deferred annuities, fell during the year in line with trends in the life insurance industry. Markets for these plans broadened after 1972 when the new higher contribution limits came into effect. Competition is keen, with banks as well as trust companies now advertising their plans through their extensive branch office operations. Also, with wide fluctuations in interest rates and continuing economic uncertainties, many Canadians interested in registered plans have been reluctant to commit funds to long-term contracts. However, sales of non-participating individual annuities for immediate income increased, both for registered plans and income averaging annuities for tax purposes. Premium income for individual non-participating annuities increased from $5.3 million to $10.3 million.

Growth of New Life Insurance Issued



"Group life insurance sales amounted to more than $688 million"

Greater flexibility, effectiveness in group coverage

Strong growth continued in the group benefits division. Premiums received in 1975 amounted to $108 million, a rise of $13 million over the previous year. Of the total, group health accounted for $52 million, group life $28 million, and pensions $28 million.

Group coverage can be more closely tailored than ever before to the needs of individual companies and employees. In group life and long term disability plans, larger amounts of coverage now can be provided without evidence of insurability. In group life plans, an individual may have greater flexibility in the amount of supplemental life insurance that can be added to the basic coverage.

Moreover, the company has moved forward to achieve cost savings in its group operations. The 14% growth in group premium has been achieved without any corresponding increase in the size of the group staff at home office; however, the number of field representatives has grown to enhance client service at the local level. Health claims were further computerized during the year to improve accuracy and the speed of payment, and additional steps will be taken in 1976.

London Life has long recognized its social responsibility to extend the benefits of group coverage not only to employees of major corporations, but also to firms as small as ten employees. With this in mind, London Life intends to offer in mid-1976 life, health and disability insurance to companies with as few as five employees.

Health insurance continues its high growth of recent years. During 1975, disability income plans grew to the point where they accounted for 64% of all health premiums received. Dental coverage is another high-growth area, with premiums received during the year rising from $4.6 million to $6.0 million. By year end, London Life provided health coverage to 4,500 companies, an increase of 300 over 1974.

Group life insurance sales amounted to more than $688 million, an increase of 37%. At year end, the amount of group life coverage was $5.2 billion, almost double the figure of only five years earlier.

In group pensions, a new deposit administration contract was made available at year end. Under this plan, capital is guaranteed while the contract is in force and each year's deposits are guaranteed at new money interest rates. This is in contrast to group annuities (where London Life provides fully-guaranteed deferred annuities for each premium paid) and group investment contracts (where the client or the employees assume almost all risks). The new product is expected to prove appealing, particularly to small and medium-sized companies.

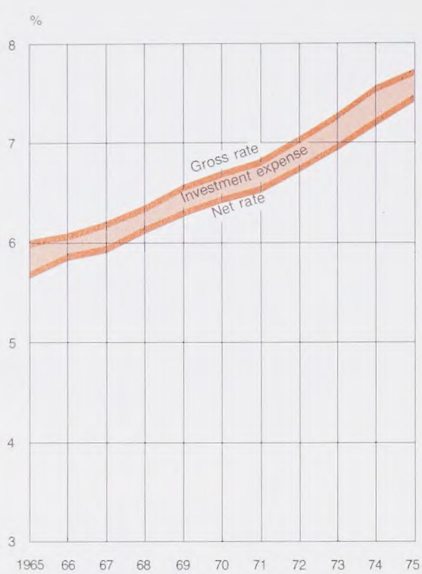
Group annuities continue to account for the bulk of pension funds; by year end, reserves amounted to $235 million, up $22 million over 1974. Assets for group investment contracts — held in the mortgage fund, fixed income fund and equity fund — totalled $35 million, compared to $28 million in 1974.

Mortgage investments build housing for Canadians

Total assets of the company surpassed $2.392 billion at the end of 1975, an increase of $204 million during the year. Of this total, the regular life branch funds accounted for $2.283 billion, the segregated funds of the life branch $49 million, and the health branch $60 million. In the regular life funds of the company, the net interest rate earned after investment expenses rose from 7.30% to 7.51%.

Mortgages continue to account for the bulk of new investments. In the regular life branch during 1975 mortgage advances, almost $139 million, were invested at an average gross rate before expenses of 10.4%, a

Interest Rates Earned



"The overall quality of the company's investments is at its highest level"

record; however, this rate still did not fully reflect the higher returns which will become available when advances begin on commitments for new mortgages made during 1975. At year end, the mortgage portfolio in the life branch reached $1.541 billion, over 95% of which helps provide housing for Canadians.

During the year more than $62 million was invested in government and corporate bonds for the regular life branch. For the first time in the company's history, the average gross yield on new bonds, 9.8%, was almost as high as the average yield on new mortgage advances. Besides a favorable yield, bonds can provide an insurance company such as London Life with a ready source of cash for honoring policy loans and surrenders. During 1975 these cash requirements declined. However, recognizing that the present trend may not last indefinitely, the company took the opportunity to increase its bond holdings to almost 22% of total assets.

The overall quality of the company's investments is at its highest level in history. Of the $486 million in bonds in the regular life branch, none is in default on either principal or interest. Of the 56,000 mortgage accounts, only 60 at the end of 1975 were in default on interest for three months or more, and virtually all of these are single family homes in which the homeowner has built substantial equity; during 1975 there were no foreclosures.

Benefits to policyowners, beneficiaries increase by $23 million

Benefits provided to policyowners and beneficiaries approached $236 million, an increase of $23 million over 1974.

With the drop in the exceptionally high interest rates of 1974 in bank deposits and Canada Savings Bonds, favorable trends were evident in individual insurance. Policy loans grew by $14 million, down from the unusually high level of increase of $26 million in 1974. Cash surrenders fell from $31 million to $28 million, withdrawal of accumulated dividends declined from $36 million to $29 million, and withdrawal of proceeds on deposit fell from $6 million to $3 million.

Death claims for individual and group policies numbered 10,127, down 143 from 1974. However, the dollar amount of claims grew from $48 million to $55 million; the increase was particularly evident among individual non-participating policies, where the exceptionally good experience of 1974 was counterbalanced in 1975.

As indicated in the previous annual report, a new dividend scale for individual life insurance became effective in 1975 and the company is maintaining this dividend scale for 1976. The dividends payable in 1976 — provided for in the financial statements in this annual report — have increased over those payable in 1975 by the normal growth.

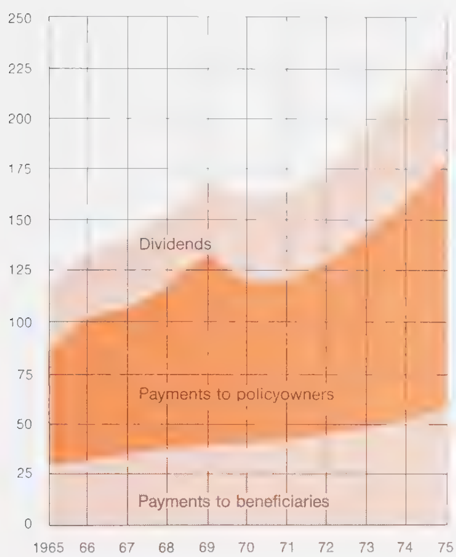
A highly competitive marketplace

The Canadian life insurance market is highly competitive. London Life takes justifiable pride in the fact that for many years it has been providing more life insurance for Canadians than any other company. Nevertheless, the fact remains that London Life still accounts for only about 14% of the individual insurance — and about 9% of the total amount of life insurance — provided to Canadians.

Moreover, competition is increasing. The five largest life insurance companies now account for only about 33% of premium income, down from 51% in 1950. And Canadians can choose from among 166 companies, up from 77 in 1950. Surely few, if any, industries provide the public with such a wide, and growing, choice of products and services.

Benefits Paid to Policyowners and Beneficiaries

in millions of dollars



"Benefits provided to policyowners and beneficiaries approached $236 million"

To maintain its competitive position, and to further improve the level of service to clients, the company has achieved considerable success in increasing the effectiveness of operations. A 5% reduction in home office staff to 1,513 was possible because of streamlining of operations and increased productivity. A 14% reduction in regional office staff to 718 was achieved primarily because of the centralization in home office of various functions such as premium collections, and the successful extension of a telecommunications system that now links regional offices with the computer at home office. As well as financial savings, this system improves standards of service to policyowners and field staff, and helps prepare the company to meet the changing business requirements of the future.

In the Marketing Organization, the overall staff declined 2% to 2,193. Fourteen regional managers were appointed during 1975, to fill openings created by retirements and deaths, and to further strengthen the organization. Moreover, improvements have been made in the arrangements for establishing new representatives. These measures, together with a controlled expansion program being undertaken in the coming year, will favorably position the company not only to protect its current market share but also to develop new markets and take advantage of future sales opportunities.

Executive Vice-President

Vice-President and General Manager

Consolidated balance sheet

ASSETS	At December 31 1975	1974
The Company has the following assets to meet its obligations to policyowners:		
Bonds and debentures *Valued at amortized cost less write-downs.*	**$ 533,761,026**	$ 428,821,350
Stocks *Valued at cost less write-downs.*	**30,455,116**	29,725,650
First mortgages *Amount of loans outstanding.*	**1,544,710,701**	1,478,359,636
Real estate:		
Income-producing properties *At cost less accumulated depreciation of $4,871,029 ($4,850,844 in 1974).*	**7,676,825**	8,454,244
Head office premises *At cost less accumulated depreciation of $8,395,190 ($7,995,190 in 1974).*	**15,592,404**	15,967,932
Loans on policies *These loans are fully secured by the cash value of the policies on which the respective loans are made.*	**158,519,658**	144,840,974
Cash	**7,048,630**	6,409,826
Electronic data processing equipment *At cost less accumulated depreciation of $3,731,255 ($3,051,322 in 1974).*	**5,037,350**	4,823,772
Premiums in course of collection	**13,979,123**	10,804,552
Accrued investment income	**22,182,065**	19,352,138
Segregated funds investments (note 4) *For group pensions and individual equity contracts, valued at market.*	**49,261,290**	38,368,647
Other assets	**4,031,622**	2,052,622
Total assets	**$2,392,255,810**	$2,187,981,343

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

AUDITORS' REPORT

To the Policyowners, Shareholders and Directors of London Life Insurance Company.

We have examined the consolidated balance sheet of the London Life Insurance Company and its subsidiary as at December 31, 1975 and the consolidated statements of income, and investment reserves and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances; the reserves and other liabilities under policy contracts were determined and certified by the Company's Chief Actuary.

LIABILITIES, INVESTMENT RESERVES, CAPITAL AND RETAINED EARNINGS	At December 31 1975	1974
The liabilities which the Company has assumed are:		
Policy reserves (note 2)	**$1,620,087,842**	$1,491,974,635
This amount together with segregated funds policy reserves, future premiums and interest earnings provides for the payment of benefits promised on all policies in force.		
Other obligations to policyowners:		
Dividends due and left by policyowners to accumulate	**246,272,172**	224,842,063
Proceeds of policies left on deposit for policyowners and beneficiaries	**16,715,683**	18,026,250
Provision for dividends payable to policyowners	**54,546,368**	49,306,603
Provision for unpaid and unreported claims	**57,393,764**	47,065,411
Premiums paid in advance	**8,621,338**	7,635,963
Staff pension and insurance reserves (note 5)	**150,371,318**	131,214,759
Prepaid taxes on mortgage accounts	**12,910,462**	13,545,685
Taxes, commissions, and other accounts due and accrued	**8,629,724**	11,664,395
Segregated funds policy reserves (note 4)	**49,261,290**	38,368,647
For group pensions and individual equity contracts.		
Other liabilities	**11,809,035**	7,845,020
	$2,236,618,996	$2,041,489,431
The investment reserves, capital and retained earnings provide additional security for policyowners and their beneficiaries:		
Investment reserves (note 3)	**$ 37,475,000**	$ 35,975,000
Capital stock:		
Authorized, issued and fully paid — 500,000 shares of $2 par value	**1,000,000**	1,000,000
Retained earnings:		
Life branch — participating	**68,821,448**	63,438,812
— non-participating	**42,399,010**	40,886,661
Health branch	**2,020,707**	1,778,448
Shareholders' account	**3,920,649**	3,412,991
	$ 155,636,814	$ 146,491,912
Total liabilities, investment reserves, capital and retained earnings	**$2,392,255,810**	$2,187,981,343

In our opinion, based on our examination and the certificate of the Chief Actuary, these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1975 and the results of their operations for the year then ended in accordance with accounting practices prescribed or permitted by the Department of Insurance of Canada.

CLARKSON, GORDON & CO.,
Chartered Accountants

London, Canada, January 30, 1976.

Consolidated statement of income

	For year ended December 31	
	1975	1974
INCOME:		
Premiums (note 7)	**$350,591,749**	$319,858,814
Investment income less investment expenses of $9,292,850 ($9,012,737 in 1974)	**165,903,300**	142,246,926
	$516,495,049	$462,105,740
DISTRIBUTION:		
For policyowners and beneficiaries —		
Benefits under life insurance policies:		
Death	**$ 54,535,355**	$ 47,669,358
Disability	**1,306,315**	1,245,951
Matured endowments	**6,667,410**	6,826,326
Cash surrenders	**28,225,644**	30,922,619
Annuity benefits	**31,768,612**	21,790,610
Health insurance benefits	**39,870,013**	36,860,048
Interest on policy and contract funds	**16,528,446**	15,419,174
Additions to policy reserves	**130,935,912**	114,355,901
Additions to staff pension and insurance reserves	**19,156,559**	18,095,591
Additions to segregated funds policy reserves	**10,892,643**	8,150,308
For operating expenses —		
New insurance and field service to policyowners	**56,319,261**	55,133,985
Head and regional offices	**44,617,097**	40,326,485
	$440,823,267	$396,796,356
Income from operations before dividends to policyowners and taxes	**$ 75,671,782**	$ 65,309,384
Dividends to policyowners	**$ 57,047,239**	$ 52,123,121
Premium taxes	**4,611,028**	4,140,432
Income taxes	**6,591,318**	6,179,006
	$ 68,249,585	$ 62,442,559
Net income	**$ 7,422,197**	$ 2,866,825
Analysis of net income:		
Investment reserves	**$ 1,500,000**	$ 1,500,000
Life branch — participating	**2,559,931**	(2,330,625)
— non-participating	**1,512,349**	2,029,963
Health branch	**242,259**	123,183
Shareholders' account	**1,607,658**	1,544,304
Net income	**$ 7,422,197**	$ 2,866,825

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

CERTIFICATE OF THE CHIEF ACTUARY

Policy reserves for annual premium life insurance policies have been determined on the net level premium basis and are in excess of the minimum modified reserves permitted as an alternative for such policies under the Canadian and British Insurance Companies Act. The total policy reserves shown in the consolidated balance sheet at December 31, 1975, including such reserves in the segregated funds, are in excess of those required under the Act and, in my opinion, make good and sufficient provision for all unmatured obligations of the Company guaranteed under the terms of its policies. The reserves for and method of funding of the staff insurance and pension benefits have been determined using assumptions that are adequate and appropriate and methods consistent with the sound principles established by precedents or common usage within the actuarial profession.

L. B. FEWSTER, F.S.A., F.C.I.A.

January 30, 1976

Consolidated statement of investment reserves and retained earnings

For year ended December 31, 1975

	Investment reserves	Life branch participating	Life branch non-participating	Health branch	Shareholders' account (note 6)
Net income before transfers to shareholders' account	$ 1,500,000	$ 3,901,282	$ 1,612,349	$ 242,259	$ 166,307
Transfers to shareholders' account		(1,341,351)	(100,000)		1,441,351
Net income	$ 1,500,000	$ 2,559,931	$ 1,512,349	$ 242,259	$1,607,658
Shareholders' dividends					(1,100,000)
Release of actuarial reserves due to changes in valuation bases		2,822,705			
	$ 1,500,000	$ 5,382,636	$ 1,512,349	$ 242,259	$ 507,658
Balance, beginning of year	$35,975,000	$63,438,812	$40,886,661	$1,778,448	$3,412,991
Balance, end of year	$37,475,000	$68,821,448	$42,399,010	$2,020,707	$3,920,649

Notes to consolidated financial statements

1. Accounting principles

The accounts of the company's wholly owned subsidiary, LONLIFE Data Services Limited, have been consolidated in the accompanying financial statements.

The life and health insurance branches are combined in the accompanying financial statements which have been prepared in accordance with accounting principles prescribed or permitted by the Department of Insurance of Canada. The Department's requirements emphasize liquidity and solvency and accordingly provide that:

(i) certain assets, such as office furniture and fixtures, amounts receivable from sales representatives and other non-admitted assets, are accounted for as expenses in the year acquired;

(ii) the costs of acquiring business are accounted for as expenses in the year incurred rather than over the periods expected to be benefited;

(iii) income taxes are calculated using the taxes payable method;

(iv) the Company has equity investments in the following Canadian real estate companies:

Toronto College Street Centre Limited
Seachel Accommodations Limited
Leaside Towers Apartments Limited

The investment in these companies is carried under the equity method as prescribed by the Department of Insurance of Canada;

(v) depreciation is provided as follows:

(a) electronic data processing equipment is depreciated on a straight-line basis at 12½% per annum;

(b) head office properties are depreciated at $400,000 per annum;

(c) under income-producing real estate — residential properties are depreciated on a declining balance basis at 5% per annum and commercial properties are depreciated on a sinking fund basis at various rates determined by the terms of the leases.

2. Policy reserves

The policy reserves are calculated on the net level premium basis. Under this basis, acquisition expenses are to be recovered throughout the premium period, whereas, as indicated in note 1 above, the costs of acquiring business must be accounted for as expenses in the year incurred. Net level premium reserves are in excess of the minimum modified reserves permitted by the Canadian and British Insurance Companies Act as an alternative to net level premium reserves for life insurance policies. Such minimum modified reserves would provide a partial deferral of the impact of the high first year expense through permitting a reduction from the net level premium reserve in the first year compensated for by an increase in the net premium required for the balance of the premium period.

3. Asset valuation and investment reserves

The investment reserves amounting to $37,475,000 represent appropriations of earnings to provide for fluctuations in asset values.

At December 31, 1975, bonds and stocks are shown in the balance sheet at values which are not in excess of amortized costs, but in the aggregate exceed the values permitted by the Canadian and British Insurance Companies Act by approximately $19,400,000, provision for which is included in the investment reserves.

4. Segregated funds

The Company has four separate segregated funds, three for group pension and group deferred profit sharing plans and one for individual insurance policies. These funds have been set up in accordance with Section 81 of the Canadian and British Insurance Companies Act so that the Company may issue policies whose reserves vary in amount depending on the market value of a specified group of assets.

5. Staff pension reserves

Increased pension benefits for employees effective from January 1, 1973 resulted in an unfunded liability with respect to the plan to be amortized by special payments over 16 years to 1988. Based on the valuation of the plan performed in 1975, the outstanding unfunded liability of the plan after recognizing special payments made to December 31, 1975 has been reduced to $22,672,000 from $25,766,000 at December 31, 1974.

6. Shareholders' account

Distributions of earnings to policyowners and shareholders are determined by the Board of Directors. The shareholders' portion of the distributable earnings in the life branch participating account is limited to a maximum of 2½% by the Canadian and British Insurance Companies Act. This amounted to $1,341,351 in 1975 after dividends to participating policyowners of $52,312,681. In addition, the shareholders' account was credited with $166,307 of investment earnings and $100,000 was transferred from the life branch non-participating account.

10 years of growth

(in thousands of dollars except per share calculations)

	1975	1974	1973
New life insurance issued	**$ 2,610,496**	$ 2,207,821	$ 1,793,290
Individual policies	**1,922,234**	1,703,819	1,442,299
Group policies	**688,262**	504,002	350,991
Total life insurance in force	**$18,946,859**	$16,957,268	$14,995,521
Individual policies	**13,753,748**	12,394,212	11,162,969
Group policies	**5,193,111**	4,563,056	3,832,552
Total assets	**$ 2,392,256**	$ 2,187,981	$ 2,023,496
Rate of return on investments (life branch excluding segregated funds)	**7.51%**	7.30%	7.04%
Retained earnings	**$ 117,162**	$ 109,517	$ 106,574
Premiums	**$ 350,592**	$ 319,859	$ 285,101
Total benefits to policyowners and beneficiaries	**$ 235,949**	$ 212,857	$ 194,126
Dividends to policyowners	**$ 57,047**	$ 52,123	$ 49,864
Earnings per share credited to shareholders' account*	**$ 3.22**	$ 3.09	$ 2.95
Dividends per share**	**$ 2.20**	$ 2.00	$ 1.80
Number of shareholders at end of year	**539**	575	599

*Commencing in 1969 the total earnings of the Company were subject to corporate income tax in accordance with new taxation regulations; therefore the amount transferred to the shareholders' account was not subject to additional tax. Previously, income tax was levied only on the earnings in the shareholders' account.

**In 1972 there was included a special dividend of $2.38.

7. Premiums

This income was derived as follows:

	1975	1974
Life Insurance —		
Participating	$201,890,013	$189,332,215
Non-participating	25,642,082	23,120,333
Annuities —		
Participating	14,050,101	16,673,077
Non-participating	38,615,284	29,751,242
Settlement	2,337,048	2,759,429
Health insurance	52,380,253	43,223,069
Staff funds —		
Life and health	2,862,317	2,361,870
Pension	12,814,651	12,637,579
	$350,591,749	$319,858,814

8. Anti-Inflation Program

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The effects on the company of the Regulations on prices, profit margins and employee compensation are not yet clear owing to uncertainties as to interpretation and the need to develop appropriate data from the company's records. Dividends to the company's shareholders during the first compliance period ending October 13, 1976 may not exceed $2.20 per share.

9. Account classifications

The groupings of accounts for the 1974 year have been changed to conform with those adopted for 1975.

1972	1971	1970	1969	1968	1967	1966
$ 1,622,372	$ 1,405,056	$ 1,193,396	$ 1,184,220	$ 1,093,467	$1,052,522	$ 994,592
1,255,333	1,101,537	986,761	959,815	967,622	894,834	848,987
367,039	303,519	206,635	224,405	125,845	157,688	145,605
$13,449,237	$12,353,618	$11,417,268	$10,820,297	$10,181,437	$9,443,271	$8,696,738
10,138,817	9,350,581	8,780,956	8,369,438	7,948,408	7,405,714	6,884,407
3,310,420	3,003,037	2,636,312	2,450,859	2,233,029	2,037,557	1,812,331
$ 1,868,813	$ 1,731,395	$ 1,628,857	$ 1,546,439	$ 1,484,929	$1,388,904	$1,295,085
6.81%	6.63%	6.52%	6.37%	6.18%	6.01%	5.93%
$ 108,062	$ 106,367	$ 103,279	$ 98,717	$ 94,435	$ 86,586	$ 78,723
$ 246,352	$ 222,468	$ 206,420	$ 206,473	$ 200,310	$ 188,282	$ 178,290
$ 174,119	$ 163,521	$ 159,469	$ 169,321	$ 152,456	$ 140,952	$ 133,346
$ 45,187	$ 42,416	$ 39,465	$ 36,858	$ 36,259	$ 34,931	$ 32,080
$ 2.74	$ 2.35	$ 2.22	$ 2.06	$ 1.11	$ 1.00	$ .93
$ 3.98	$ 1.40	$ 1.20	$ 1.00	$ .94	$ .88	$ .84
605	627	623	582	579	615	631

Administrative officers

Actuarial
J. C. McKibbon
Actuary

J. A. Mereu
Actuary, Product Development

I. R. Taylor
Actuary

G. G. Cameron
Research Actuary

Administration Regional Offices
R. L. Low
Administration Executive
Regional Offices

Claims
G. W. Morrow
Claims Services Executive

Communication Services
J. B. Chick
Communication Services
Executive

Comptroller
J. C. A. Macdonald
Comptroller

Group
R. G. Mepham
Group Actuary

A. M. Bayly
Group Insurance Actuary

Information Systems
W. H. Thomson
Information Systems Executive

Insurance Services
S. P. Geddes
Insurance Services Executive

Marketing
D. A. Smith
Director of Marketing

T. Orr
Director of Consumer Affairs
and Marketing Administration

District Sales Division
A. E. Bennett
Director of Marketing

C. G. Chenier
Associate Director of Marketing
(Montreal)

W. H. Gleed
Associate Director of Marketing
(Toronto)

General Sales Division
D. K. Shales
Director of Marketing

J. A. Fowler
Associate Director of Marketing

Medical
J. S. Winder, M.D.
Medical Director

J. B. Walker, M.D.
Associate Medical Director

Mortgage
R. D. Abercromby
Mortgage Executive

Personnel
W. A. McCoy
Personnel Executive

Securities
G. A. Gloin
Securities Executive

Staff Health
N. J. England, M.D.
Staff Health Physician

Underwriting and Issue
M. E. Comfort
Underwriting Executive

Regional offices

London Life maintains a network of more than 120 offices across the nation. These offices provide service for both individual and group coverage, and for the administration of London Life's extensive mortgage operations.

British Columbia
New Westminster
Vancouver (7 offices)
Victoria

Alberta
Calgary (6 offices)
Edmonton (4 offices)
Lethbridge
Medicine Hat

Saskatchewan
Moose Jaw
Regina
Saskatoon

Manitoba
Winnipeg (5 offices)

Ontario
Barrie
Belleville
Brampton (2 offices)
Brantford
Brockville
Cambridge
Chatham
Cornwall
Guelph
Hamilton (6 offices)
Kingston (2 offices)
Kirkland Lake
Kitchener
London (5 offices)
Mississauga
Niagara Falls
North Bay
Orillia
Oshawa (2 offices)
Ottawa (4 offices)
Peterborough
St. Catharines
(2 offices)
St. Thomas
Sarnia
Sault Ste. Marie
Stratford
Sudbury (2 offices)
Thunder Bay
Timmins
Toronto (15 offices)
Welland
Windsor (3 offices)
Woodstock

Quebec
Montreal (17 offices)
Rouyn-Noranda
Sherbrooke
St. Hyacinthe
Val d'Or

New Brunswick
Moncton (2 offices)
Saint John

Nova Scotia
Dartmouth
Halifax (3 offices)
Middleton
Sydney

London Life

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